

CIB, CONVENTION AND TOURISM FUNDING SOLUTIONS TASK FORCE

DATE: December 9, 2009

CALLED TO ORDER: 6:07 p.m.

ADJOURNED: 6:57 p.m.

ATTENDANCE

ATTENDING MEMBERS

Michael McQuillen, Chairman
Jackie Nytes
Joanne Sanders
Ryan Vaughn

ABSENT MEMBERS

Paul Okeson

AGENDA

Presentation on Indianapolis Convention Business and Related Financial Implications -
James Wallace, Chief Financial Officer, Indianapolis Convention & Visitors Association,
and Phil Ray, Chairman of the Board, Hotel and Lodging Association

CIB, CONVENTION AND TOURISM FUNDING SOLUTIONS TASK FORCE

The CIB, Convention and Tourism Funding Solutions Task Force of the City-County Council met on Wednesday, December 9, 2009. Chairman Michael McQuillen called the meeting to order at 6:07 p.m. with the following members present: Jackie Nytes, Joanne Sanders and Ryan Vaughn. Paul Okeson was absent. Also in attendance was Councillor Bob Cockrum.

Chairman McQuillen asked all members to introduce themselves and state which district they represent. He said that Paul Okeson is unable to attend the meeting due to a family obligation. Chairman McQuillen introduced James Wallace, Senior Vice President of Finance, Administration and Technology, Indianapolis Convention & Visitors Association (ICVA), and Phil Ray, General Manager, Omni Severin Hotel and President, Greater Indianapolis Lodging Association (GILA). Chairman McQuillen stated that there was a report commissioned by both organizations that looked at some of the issues that are currently going on with funding shortfalls and with the way that the convention and tourism business operates in Indianapolis. He asked Mr. Wallace and Mr. Ray to give a summary of the report.

Mr. Wallace said that he has been with the ICVA for nearly 20 years. Mr. Wallace said that it has been tremendous to see the changes that have taken place in Indianapolis over the last 30 years. He said that downtown has really improved since the building of the original Indiana Convention Center. He said that many significant improvements have been made, including the new Indianapolis Airport, Lucas Oil Stadium, the proposed Convention Center expansion, and the addition of 1,600 hotel rooms at the Marriott Place; and the City is poised to move forward to even greater things. Mr. Wallace said that there is a great opportunity to leverage the convention and meetings industry, as well as leisure travel, to increase economic impact to the City. He said, over the last several years, the ICVA has averaged between 35 and 40 city-wide conventions and many others at their single property meetings. On average, these conventions brought in over \$420 million a year in economic impact and represent about 525,000 room nights. Mr. Wallace said with the Convention Center expansion and additional hotel rooms, it is believed that the economic impact can be increased to \$680,000 or 850,000 room nights. He said they began marketing the expanded facilities in mid-2008 to take advantage of the economic opportunities. He said that conventions generally make commitments five to seven years in advance, and ICVA is working to maximize the use of the expanded facilities when they open in 2011.

Mr. Wallace distributed a room-night booking analysis and estimate (attached as Exhibit A) and an eight-year outlook (attached as Exhibit B). He said that the chart on the bottom of Exhibit A illustrates ICVA's belief that 850,000 room nights can be reached over the next several years. He said that the difference between the goal pace and the amount on the books indicates where ICVA would like to be and where they need to be in order to hit these goals. Mr. Wallace said in order to work toward the goals, ICVA must maximize their convention sales efforts, focusing on the short-term placements, especially in years 2011 thru 2014. He said they also must expand their leisure marketing efforts to place business in the years 2011 thru 2014. He said they are usually unable to book conventions short-term, but they were recently able to book Custom Electronic Design and Installation Association

(CEDIA) for home theatres with 34,000 room nights. Mr. Wallace said there are a few challenges to implement their goals, so they did a few things to address the challenges:

- Make certain to have the right team in place.
 - At the end of 2008, ICVA evaluated and made changes in their team.
 - Reduced head count by about 10%.
 - Focused all efforts on direct sales.
- Need additional financial resources
 - After much lobbying at the state and local level, ICVA, with the help of the City-County Council, has successfully approved the CIB's 2010 budget.
 - This increased ICVA's contract.
- Must be competitive with other cities in the country going after conventions.
 - Over the years, a process was developed with the CIB where a fund of up to \$750,000 could be used to offset the rack rate for conventions to the lowest amount that the market could bear.
 - This was found to be inaccurate going into the future, so ICVA has been working with the Council and the CIB to find the best ways to address this issue.
 - ICVA presented before the CIB the need for multiple groups to have pricing adjustments, so that the CIB could continue to pursue them.
- Make sure that the ICVA is following the best practices.
 - The ICVA commissioned Dave Ratcliffe, Ratcliffe Company, to evaluate all of their practices from a sales perspective (this is the report to which Chairman McQuillen referred).
 - This report was initially done in March of 2009. Mr. Ratcliff recommended the following:
 - Improve coordination between the ICVA and the CIB in all areas, including site visits, sales process, how clients are serviced and alignment of goals.
 - Development of a business evaluation model, so that ICVA can prioritize their market opportunities.
 - Mr. Wallace said that Exhibit B helps the ICVA to understand where they have the best opportunity to place business.
 - In any given year, in any given month, the ICVA knows how many room night commitments they would like to have in place.
 - Many of the highlighted areas on Exhibit B show areas of need, which allows ICVA the flexibility to go after potential opportunities, such as rent discounts or other incentives to compete in the market place.
 - ICVA believes that the business evaluation model is the right approach to put in place so that a proper, consistent evaluation of groups can be done.

Councillor Sanders said that most of what has happened with the CIB has been played out in the media and sometimes that information taints the discussion. She said as she recalls, CEDIA left the City because the Convention Center was too small to accommodate the growth in the size of their exhibit. Mr. Wallace confirmed Councillor Sanders' statement and said that CEDIA was with the City until 2004. He said after being in two cities, CEDIA has determined that Indianapolis will be a great fit after the expansion of the Convention Center.

Mr. Ray distributed a summary of his statement (attached as Exhibit C). He said that they also hired Dave Ratcliffe to do a report called the competitive analysis for best practices review. This report looked at the practice that 12 different cities use in their convention centers. He said this report was completed on October 23, 2009, and then an amendment was done on October 20, 2009. Mr. Ray said that the biggest concern is how to overcome any obstacles that are stopping sales processes and keeping the City from being competitive and able to convert as many business opportunities as possible. He said that ICVA's \$750,000 fund, referenced in Exhibit C, was used to entice business and make deals to book conventions. However, data has shown that this practice has become outdated. Mr. Ray said that Exhibit C highlights some of the results of the study with respect to the biggest concerns and recommended changes in order for the City to be successful. He read through the key findings.

Councillor Sanders asked what kind of competition there is between the national efforts to make sure that hotels are full and the ICVA's efforts to coordinate timeframes for conventions. She said that she assumes that most of the hotels in the downtown area that serve the convention industry are national chains that have their own agendas. Mr. Ray said that the hotel industry wants to bring in all national brands and sales teams to see the City in order to bring business into the City. Councillor Sanders asked how that coordinates with the efforts of ICVA and event planners at the Convention Center so that business is not turned away due to miscommunication. Mr. Wallace answered that all of the hotels are needed to work together in order to attract a city-wide event. He said that Indianapolis is fortunate to have hotels that are committed to working together as a group. There are competing needs at times, but they are typically overcome by working together. Mr. Ray added that Indianapolis is the best city where the hotel community and the ICVA work well together, and everybody understands that their business will be successful if the City is successful. For example, for the Final Four, all of the hotels must commit in the 99.2% availability just to bid on the event.

Chairman McQuillen commented that shared efficiencies and working together is one of the areas he believes that the Task Force can impact more easily than the eventual regional solution. He said that another area they would like to look at with ICVA, the CIB, Indianapolis Downtown, Inc. (IDI), and other such groups are other places to find shared efficiencies.

Councillor Vaughn thanked ICVA and the Hotel and Lodging Association, as these two organizations were more helpful during the most recent legislation in assembling information and communicating with Councillors. He asked, with regard to the \$750,000 fund in relation to yield management, if the fund is insufficient to accomplish the desired task or if the fund

model is ineffective in the sense of handling discounts. Mr. Ray answered that both concepts are true, because the fund has basically been maxed out and mortgaged to secure current business, so there is very limited dollars going forward in the next several years. He said he believes the model is ineffective because in competing with other cities, some of those cities may offer free building rent because they see that they are being more than compensated by the taxes that are being generated. Councillor Vaughn asked what amount would be sufficient to handle offering discounts. Mr. Ray answered that he does not believe that the model makes sense or that money is the issue. Councillor Vaughn asked what model would work best to give the best return to the City, and who has the authority to manage that yield. Mr. Wallace answered that part of the issue is that the fund is not actual money that is being spent, it is an established amount. For example, a car sells new for \$20,000, but there is a sticker in the window for \$40,000. This is an example of selling the car at the market rate of \$20,000. He said that the \$750,000 fund is simply money that is not being charged because the market will not bear the rate. Councillor Vaughn asked if the market rate that the City can charge for hotel and convention services is less than what it costs to operate and maintain the facilities. Mr. Wallace said, in general, most convention centers operate at a loss in terms of building operations across the country. He said that most cities look at the economic impact and the overall taxes, such as sales tax, property tax, and income tax, that are collected. He said this is also the case with Indianapolis, and when the economy was better, the City was able to turn a profit, even at the Convention Center level. However, the City is now at a competitive disadvantage, because although Indianapolis' package as a whole is better than most cities across the country, some other cities offer better incentives.

Councillor Vaughn asked how the City gets to a point of breaking even and at a more competitive advantage. Mr. Ray answered that it goes back to the total anticipated spend or how business is evaluated. He said he believes that the Convention Center is only one component, and this should not be measured simply by that component. He said the cost of the Convention Center, debt service, basic utilities and other fixed expenses should be looked at. Then other factors layer in, such as the cost to service business, prepare food, and take care of clients. Mr. Ray said, therefore, the model should include fixed costs, variable costs, costs of service, built-in profit, and revenue to develop a profit margin. He said this profit margin may fluctuate from month-to-month due to prime seasons. Councillor Vaughn asked who is currently in charge of making the business model decision. Mr. Wallace answered that ICVA makes a recommendation to the CIB, who then approves any changes. He added that the current process has been inconsistent, and there needs to be a consistent methodology, so that decisions can be made more quickly.

Councillor Nytes asked what city-wides mean. Mr. Ray answered that it is a convention term that means that multiple hotels are being used. Councillor Nytes asked how many rooms are required to be booked to designate an event as a city-wide. Mr. Ray answered that 1,000 rooms must be booked. Councillor Nytes asked what the geography is of the GILA. Mr. Ray answered that it covers Marion County and all of the donut counties. Councillor Nytes asked Mr. Ray to provide the Task Force with information on the demographics of hotel availability in Marion County and the donut counties, as well as some information on various events and their impact on hotel supply. Mr. Ray answered in the affirmative, and stated that they call

that compression. Councillor Nytes said that she believes that is the kind of information that would be valuable to the Task Force's future discussion.

Councillor Sanders asked if there is a database used to capture projected taxes that are being generated from current business. Mr. Ray answered that this has not been a past practice, but they have done something like that on some of the major events. He said that it may be possible to go back and obtain estimates from past conventions. Councillor Sanders said that she believes this would be critical to creating a new model. Mr. Wallace added that there is research from past conventions that captures how convention delegates spend their money, where the money is spent, and how much money is spent. He said it is known that convention delegates spend about 20% of their money on a hotel, about 20% on shopping, about 20% on food and beverage, and the remainder on transportation and other things. He said they are able to use this research to inform decisions. Councillor Sanders said that she would like to see this information, because the money actually goes to the State, and the City has to estimate what is believed to be spent. Mr. Wallace said that the CIB primarily looks at hotel and motel and food and beverage taxes, which only represent about 42% of the total spend. He said that the sales tax, not including income or property tax, is 7% and applies to 85% to 90% of every dollar spent.

[Clerk's note: Councillor Nytes left at 6:55 p.m.]

Councillor Sanders asked if people attending conventions could get some kind of card to use at other businesses as an attempt to capture the business brought in by conventions. Mr. Ray said that is a good suggestion, but he is not sure if that can be done. He said that business owners generally know how much of their business is attributed to conventions.

There being no further business, and upon motion duly made, the meeting was adjourned at 6:57 p.m.

Respectfully Submitted,

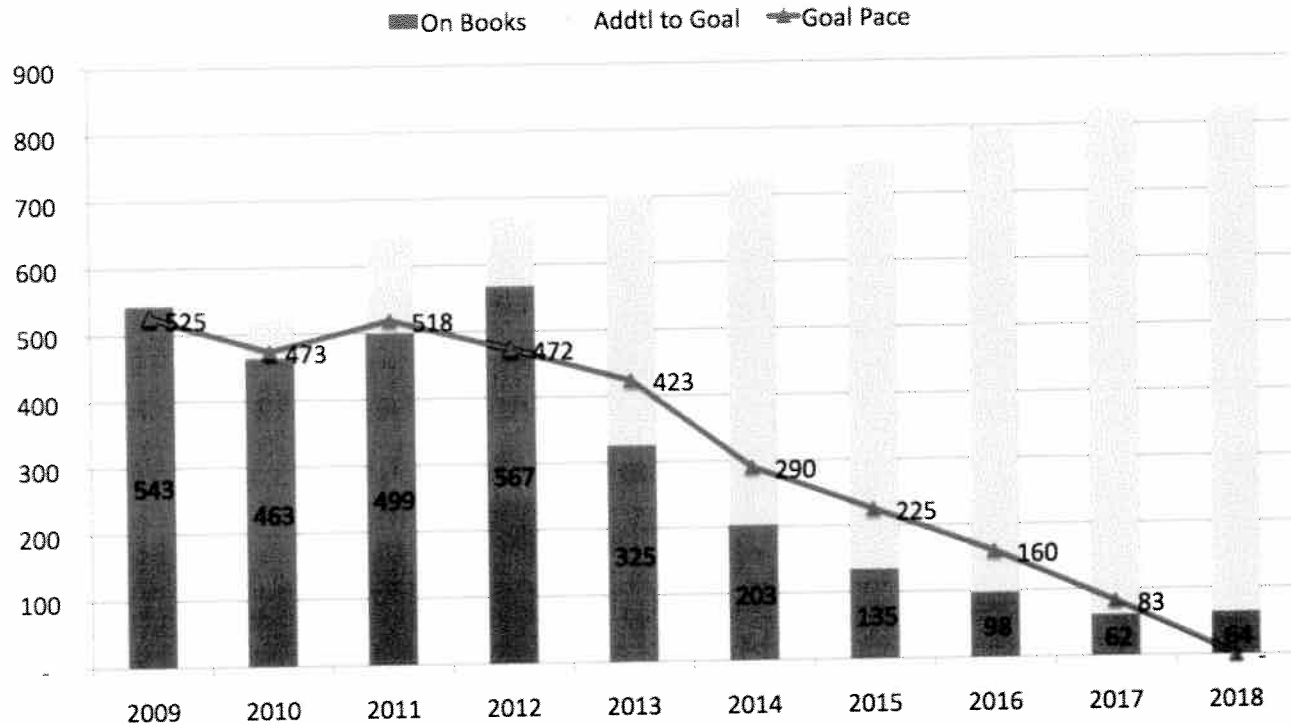
Michael McQuillen, Chairman

MM/nsm

**Indianapolis Convention & Visitors Association
Room-Night Booking Analysis and Estimate
December 1, 2009**

	2009	2010	2011	2012	2013	2014	2015
Current Resource Level:							
Room-Night Production for Future Years	671,073	650,000	650,000	650,000	650,000	650,000	650,000
Room-Nights Realized	542,570	527,554	628,735	761,561	584,610	528,178	590,471
Enhanced Resource Level:							
Room-Night Production for Future Years	671,073	700,000	735,000	775,000	850,000	850,000	850,000
Room-Nights Realized	542,570	532,554	642,235	787,561	630,610	594,178	681,471

**Estimated Booking & Pace Report
December 31, 2009**



8 year outlook

Definite Room Nights

Pace Target

Variance

Pace Percentage

Tentative Room Nights

	2009	2010	2011	2012	2013	2014	2015	2016	Total
	539,469	453,760	447,208	484,729	289,471	147,370	114,065	76,731	2,552,803
	484,674	486,249	515,132	453,832	393,330	275,175	116,787	49,015	2,774,194
	54,795	(32,489)	(67,924)	30,897	(103,859)	(127,805)	(2,722)	27,716	(221,391)
	111%	93%	87%	107%	74%	54%	98%	157%	92%
57	41,603	148,018	220,361	250,595	355,929	260,635	216,842	1,494,040	

2010

Definite Room Nights

Pace Target

Variance

Pace Percentage

Tentative Room Nights

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
10,694	38,496	40,404	91,780	26,378	32,108	27,242	52,997	14,504	88,848	23,698	6,611	453,760	
20,341	38,784	48,211	62,901	29,111	49,091	38,689	47,596	29,327	82,468	29,310	10,420	486,249	
(9,647)	(288)	(7,807)	28,879	(2,733)	(16,983)	(11,447)	5,401	(14,823)	6,380	(5,612)	(3,809)	(32,489)	
53%	99%	84%	146%	91%	65%	70%	111%	49%	108%	81%	63%	93%	
743	633	4,448	2,534	2,904	10,763	1,946	6,638	5,884	2,880	1,618	612	41,603	

2011

Definite Room Nights

Pace Target

Variance

Pace Percentage

Tentative Room Nights

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
16,980	22,785	50,392	59,286	30,807	48,762	23,972	39,824	30,927	72,411	33,673	17,389	447,208	
21,838	41,576	51,674	67,161	31,115	52,019	41,071	50,610	30,964	85,851	30,437	10,816	515,132	
(4,858)	(18,791)	(1,282)	(7,875)	(308)	(3,257)	(17,099)	(10,786)	(37)	(13,440)	3,236	6,573	(67,924)	
78%	55%	98%	88%	99%	94%	58%	79%	100%	84%	111%	161%	87%	
2,514	11,755	10,674	1,580	10,048	22,495	8,460	10,123	45,607	21,942	2,820	0	148,018	

2012

Definite Room Nights

Pace Target

Variance

Pace Percentage

Tentative Room Nights

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
13,492	110,590	64,754	34,086	13,708	23,841	35,384	63,977	31,085	73,445	17,021	3,346	484,729	
19,352	36,718	45,351	59,042	27,411	45,847	36,227	44,516	27,157	75,656	26,945	9,610	453,832	
(5,860)	73,872	19,403	(24,956)	(13,703)	(22,006)	(843)	19,461	3,928	(2,211)	(9,924)	(6,264)	30,897	
70%	301%	143%	58%	50%	52%	98%	144%	114%	97%	63%	35%	107%	
409	32,555	7,713	19,039	24,620	35,962	23,793	3,231	43,422	13,607	10,624	5,386	220,361	

2013

Definite Room Nights

Pace Target

Variance

II Pace Percentage

Tentative Room Nights

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
9,865		0	37,953	40,222	30,873	45,229	21,463	46,892	25,800	22,155	4,067	4,952	289,471
17,066		32,638	40,520	52,795	23,319	38,926	30,752	38,139	23,427	65,041	22,689	8,018	393,330
(7,201)		(32,638)	(2,567)	(12,573)	7,554	6,303	(9,289)	8,753	2,373	(42,886)	(18,622)	(3,066)	(103,859)
58%		0%	94%	76%	132%	116%	70%	123%	110%	34%	18%	62%	74%
9,025		33,885	30,449	17,443	9,240	26,435	1,102	420	64,531	37,460	20,125	480	250,595

2014

Definite Room Nights

Pace Target

Variance

Pace Percentage

Tentative Room Nights

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
850		0	36,422	36,655	17,981	7,123	0	19,359	8,770	11,362	6,132	2,716	147,370
14,681		26,974	32,767	42,753	19,558	31,809	23,763	25,812	11,968	30,807	10,692	3,591	275,175
(13,831)		(26,974)	3,655	(6,098)	(1,577)	(24,686)	(23,763)	(6,453)	(3,198)	(19,445)	(4,560)	(875)	(127,805)
6%		0%	111%	86%	92%	22%	0%	75%	73%	37%	57%	76%	54%
13,610		33,237	30,518	9,305	5,552	59,753	52,477	29,812	48,150	43,015	30,500	0	355,929

1-Nov-09

<10,000> room nights behind pace

<49,000> room nights behind pace

City Council – Radcliffe Study Overview

- Thank you for opportunity to share the view point of the hotel community
- The Best Practices review helped us verify our feelings, insights and observations of the difficulties the ICVA sales team is facing in trying to close business for the city.
- We believe the existing model and selling practices were effective at one time but no longer are acceptable. The \$750K fund approach worked for many years but the fund for future years has been maxed out and because of this there is reduced flexibility to discount or make deals as needed.
- As the city has expanded and the economy has changed, it has made our model outdated and makes our city less competitive.
- With more hotel inventory coming into the market it is critical that we close on all business leads.
- We believe the selling process changes need to happen to give our ICVA sales team the best chance to be most successful and to have a higher booking success rate.
- The key findings summarize many of the concerns we have and recommended changes.
- The three biggest concerns are:
 - **Yield Management is needed to maximize our revenue opportunities**
 - No yield management practices are in place now. Building rent pricing is fixed and does not flex and price increases have been set a 5% each year.
 - Yield management is the basic concept of discounting during low demand and charging a premium during high demand times.
 - Hotel rooms and airlines have practiced this for years.
 - Use this practice to layer in or stack groups over demand times to maximize revenues.
 - **Total anticipated spend – Evaluation of Business**
 - Global business value should be evaluated based on the total spend and taxes generated for the CIB, not just on one component. I.e. convention center rent. Hotels practice this concept.
 - Flexibility in pricing or discounting **may** make sense if it generates enough overall business revenues and thus taxes for the CIB.
 - Revenue and profit evaluation models can be generated to demonstrate if a piece of business makes sense to book even with the discounts applied.
 - This process helps us understand the quality of the business and will allow deal making or discounting in the sales process to respond to our clients needs and keep our bid competitive.
 - **Speed to market**
 - This is crucial that we are responsive to stay competitive. Decisions need to be quick!
 - CIB has assisted recently as business cases were made for discounting above the fund max and this has proven effective to contract the groups.
 - But, it is not practical to have to secure approval from the CIB each time an opportunity to contract business requires discounting. The time to gain approval will ultimately cause us to lose business.
 - Guidelines and flexibility are needed so decisions can made quickly by the ICVA sales team.
 - Accountability and review of the business reason for the discounts must be maintained.
 - Hotel example – SSG guidelines for rates by date; F&B discounts up to 15% at sales manager discretion - above that requires the F&B Director and GM.
 - **Joint performance objectives that align senior management at ICVA and ICCLOS**